

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02 OMB-01
DOE-11 IO-13 STRE-00 AF-10 ARA-10 EUR-12 NEA-10
/157 W

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P 170858Z MAR 78

FM AMEMBASSY MANILA

TO USMISSION GENEVA PRIORITY

SECSTATE WASHDC PRIORITY 3141

C O N F I D E N T I A L SECTION 1 OF 2 MANILA 4381

PASS STR ELECTRONICALLY; PASS USDA, OAA/ITP

E.O. 11652: GDS

TAGS: ETRD, MTN, RP, US

SUBJECT: US AND RP IN MTN

REF: (A) STATE 33133, (B) MANILA 2467, (C) MANILA 2865,
(D) STATE 47797

1. BEGIN SUMMARY. BILATERAL TROPICAL PRODUCTS (TP) TALKS BETWEEN PHILIPPINE MTN DELEGATION (LEAD BY AMBASSADOR VEGA) AND US MTN DELEGATION ARE EXPECTED TO TAKE PLACE IN GENEVA MIDDLE OF THIS MONTH. EMBASSY UNDERSTANDS THESE TALKS ARE BEST CARRIED OUT IN GENEVA, AND BACKGROUND INFORMATION FURNISHED BELOW IS FOR USE OF U.S. MTN DEL. END SUMMARY.

2. COCONUT OIL AND PLYWOOD ARE THE PIVOTAL ITEMS ON U.S. TROPICAL PRODUCTS OFFER LIST FOR SEVERAL REASONS, BUT THESE TWO ITEMS WOULD STAND OUT ON GROUNDS OF TRADE VOLUME ALONE. OF SIXTY-THREE (63) OTHER ITEMS ON EMBASSY'S COPY OF OFFER LIST TABLED MARCH 1976, FORTY-SIX ARE ON GSP LIST WITH SIX
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(6) OF THESE FORTY-SIX (46) INELIGIBLE FOR GSP DUE TO COMPETITIVE NEED PROVISIONS. ALL SIX ITEMS ARE INELIGIBLE DUE TO 50 PERCENT PROVISION RATHER THAN DOLLAR-VOLUME LIMITATION. AMONG THESE GSP ITEMS, ONLY BANANAS (146.44) CASTOR OIL (176.01) AND WOOD VENEER PANELS (240.38) HAD TRADE OVER ONE MILLION U.S. DOLLARS IN 1977 (ONE MILLION DOLLARS REPRESENTS SLIGHTLY LESS THAN ONE-TENTH OF ONE PERCENT OF

U.S. IMPORTS FROM THE PHILIPPINES ACCORDING TO U.S. TRADE STATISTICS FOR 1977.) EMBASSY DOES NOT HAVE 1977 U.S. TRADE DATA FOR 19 TP ITEMS WHICH ARE NOT ON GSP LIST. NEVERTHELESS, OF THESE 19 ITEMS, OUR IMPRESSION IS THAT ONLY COCONUT OIL, PLYWOOD, DESSICATED COCONUT AND, TO A LESSER EXTENT, JUTE CORDAGE ARE OF PARTICULAR INTEREST TO THE PHILIPPINES.

3. THE U.S. DUTIES ON COCONUT OIL AND PLYWOOD ARE PERENIALLY IMPORTANT ISSUES BECAUSE THE VOLUME OF TRADE REMAINS HIGH. HOWEVER, THE TARIFFS ON COCONUT OIL AND PLYWOOD HAVE LONG GENERATED SPECIAL RESENTMENT AMONG FILIPINOS BECAUSE CONVENTIONAL WISDOM HERE HOLDS THAT THESE PARTICULAR TARIFFS ARE DISCRIMINATORY AND A DIRECT CONSEQUENCE OF THE "COLONIAL" PERIOD. GOP HAS, IN PAST, PUT FORWARD FOLLOWING NON-ECONOMIC ARGUMENTS AGAINST THESE TARIFFS. UNDER THE LAUREL-LANGLEY AGREEMENT (WHICH EXPIRED JULY 3, 1974), COCONUT OIL (AND OTHER PRODUCTS) FROM THE PHILIPPINES ENTERED THE U.S. DUTY FREE (UP TO A CERTAIN QUOTA LEVEL). AS A RESULT OF THIS SPECIAL TRADING RELATIONSHIP, GOP DECIDED NOT TO PARTICIPATE IN KENNEDY ROUND TALKS WHERE TARIFF CUTS WERE NEGOTIATED ON PRODUCTS COMPETING WITH PHILIPPINE PLYWOOD AND COCONUT OIL.

4. SINCE THE SPECIAL TRADING RELATIONSHIP ENDED WITH EXPIRATION OF LAUREL-LANGLEY (AND NEGOTIATIONS FOR A CONFIDENTIAL

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SUCCESSOR AGREEMENT HAVE NOT REPEAT NOT PROGRESSED), THE PHILIPPINES FACES HIGHER TARIFF BARRIERS IN THE U.S. THAN SOME OF ITS COMPETITORS. GOP OFFICIALS TEND TO BLAME THIS SITUATION ON THE "SPECIAL RELATIONSHIP" EMBODIED IN LAUREL-LANGLEY. THEY BELIEVE THAT THE UNITED STATES HAS AN OBLIGATION NOW TO REMOVE THESE TARIFF INEQUITIES AND ERASE THIS VESTIGE OF THE COLONIAL PERIOD. EMBASSY HAS REPEATEDLY POINTED OUT THAT IF PHILIPPINES HAD PARTICIPATED IN KENNEDY ROUND, DUTY COULD HAVE BEEN LOWERED ONLY ON BAI OF RECIPROCAL CONCESSIONS. ON THE ONE HAND, DUTIES WERE NOT LOWERED, BUT ON THE OTHER, THE PHILIPPINES MADE NO RECIPROCAL CONCESSIONS AS DID OTHER COUNTRIES WHICH NOW BENEFIT FROM LOWER TARIFFS ON THESE ITEMS.

5. PHILIPPINE OFFICIALS HAVE ALSO FELT THAT HIGHER TARIFF ON "PHILIPPINE MAHOGANY" PLYWOOD (AS U.S. TARIFF SCHEDULE IDENTIFIES THIS ITEM) IS AIMED SPECIFICALLY AT THE PHILIPPINES. EMBASSY OFFICIALS HAVE REPEATEDLY EXPLAINED THAT TSUSA ITEM

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FM AMEMBASSY MANILA

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SECSTATE WASHDC PRIORITY 3142

C O N F I D E N T I A L SECTION 2 OF 2 MANILA 4381

PASS STR ELECTRONICALLY, PASS USDA, OAA/ITP

REFERS TO A SPECIES OF TROPICAL SOUTHEAST ASIAN HARDWOOD, ALON OR SHOREA ALMON, AND NOT JUST TO MAHOGANY FROM THE PHILIPPINES. SHOREA ALMON IS LISTED IN A TSUSA CATEGORY WHICH INCLUDES SEVERAL SPECIES THAT GROW IN MALAYSIA OR INDONESIA IN GREAT QUANTITIES. IN FACT, MOST PHILIPPINE MAHOGANY IS NOT REPEAT NOT IMPORTED INTO THE U.S. FROM THE PHILIPPINES BUT RATHER FROM KOREA (AS PLYWOOD) AND KOREAN PLYWOOD IS MADE UP FROM WOOD ORIGINATING ALL OVER SOUTHEAST ASIA.

6. WHETHER OR NOT GOP DELEGATION IN GENEVA PRESENTS THIS SORT OF SPECIAL PLEADING, THESE ARGUMENTS HOLD STRONG SWAY AT HIGH LEVELS HERE AND REMAIN CONTENTIOUS AND EMOTIONAL LIETMOTIF IN U.S.-PHILIPPINE BILATERAL RELATIONS. THUS, WE BELIEVE IT IS BOTH POLITICALLY AND ECONOMICALLY EXPEDIENT FOR GOP TO BARGAIN FOR AS LOW A TARIFF AS POSSIBLE ON THESE TWO ITEMS. EMBASSY UNDERSTANDS AND FULLY SUPPORTS NECESSITY FOR "CONTRIBUTIONS", BUT IF GOP GENEVA DEL IS WILLING TO BARGAIN ON REASONABLE BASIS, EMBASSY STRONGLY CONTENTS THAT IS IS IN OVERALL BEST INTEREST OF
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U.S. TO OFFER TO REDUCE COCONUT OIL TARIFF TO ZERO. U.S. IS ON RECORD IN BILATERAL DISCUSSIONS TO REDUCE TO ZERO, AND EMBASSY UNDERSTANDS THIS PROVIDES JSITIFICATION UNDER

TRADE ACT FOR OFFER. IT ALSO APPEARS ON BASIS OF BRIEF ANALYSIS CONTAINED PARA 2 ABOVE THAT HEFT OF U.S. TP OFFER LIES WITH COCONUT OIL AND PLYWOOD. U.S. NEGOTIATORS MAY WISH TO MAXIMIZE NEGOTIATING LEVERAGE WITH PHILIPPINES BY OFFERING MAXIMUM CONCESSIONS UNDER LAW ON THESE TO PRODUCTS.

7. PLEASE NOTE THAT U.S.- PHILIPPINE BILATERAL ECONOMIC TREATY NEGOTIATIONS HAVE NOT RPT NOT BEEN "SUSPENDED" AS SPECIFIED IN STATE 33133. SUSPENSION IMPLIES AN AGREEMENT, IMPLICIT OR EXPLICIT, NOT TO MEET AGAIN. THE SITUATION IS SOMEWHAT DIFFERENT. LAST SEPTEMBER, INFORMAL TALKS ON THE TREATY DID NOT PROVE FRUITFUL. UNLESS CIRCUMSTANCES CHANGE, THE U.S. GOVERNMENT IS NOT RPT NOT NOW PREPARED TO RESUME DISCUSSIONS. WE HAVE NOT RPT NOT, HOWEVER, GONE SO FAR AS TO CONSIDER THE TALKS "SUSPENDED", PARTLY BECAUSE WE ARE CONCERNED THAT GOP MIGHT WRONGLY INTERPRET SUCH A POSITION AS A CHANGE IN U.S. POLICY TOWARD THE PHILIPPINES. WE USUALLY REFER TO BILATERAL TALKS AS "INACTIVE".
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